Satya Microcapital Limited

September 12, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	50.00 (Rupees Fifty crore only)	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	**Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)**
Total Facilities	**50.00 (Rs. Fifty crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to Satya Micro Capital Limited (SML) takes into consideration capital raising of Rs.43 crores in July 2018, which improves company's capitalization profile as well as enable company to scale up its operations. The rating also factors in experienced promoters and management team, geographically diversified loan book, diversified resource base, adequate liquidity profile and adequate loan origination, monitoring and risk management systems put in place by the company. These rating strengths, are however, partially offset by the short track record of operations, small scale of operations, low seasoning of loan portfolio although comfortable asset quality indicators, loss making operations being in initial years of business and inherent risk involved in the microfinance industry including unsecured lending, socio-political intervention risk and regulatory uncertainty

Going forward, the ability of the company to scale up operations in a profitable manner while maintaining comfortable asset quality and capitalization would be the key rating sensitivities

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management team: SML is promoted by Mr. Vivek Tiwari, promoter director who is also a member of the governing board of SML which consists of 6 other members who are/have been associated at senior management level with some of the prominent microfinance institutions in the country .Mr. Vivek Tiwari has an experience of nearly two decades in the microfinance sector. Before venturing out with SATYA, he was associated with Satin Creditcare Network Limited as COO. Senior management team of the company also has good experience in the microfinance and financial sector.

Geographically diversified loan book in relation to its size: SML started its operations in November 2016 and currently operating in eleven states with loan book of Rs.255 crore as on June 30, 2018. SML's loan book is diversified across geographies; with UP (24% of loan book as on June 30, 2018), Punjab (23%), Bihar (15%), Rajasthan (14%), Haryana (14%), Chattisgarh (6%), Uttarakhand (4%) and remaining book spread across rest four states.

Adequate Loan Origination Systems & Risk Management Systems: SML has set up an adequate loan origination, monitoring structure for overseeing its operations. More specifically, SML also has additional layer of credit team, before disbursement of loan.

Diversified Resource Base and Adequate Liquidity Profile: Major source of external funding for SML has been term loans (short term/long term) from Financial Institutions. As on June 30, 2018, the company has funding tie up with 27 lenders and the total borrowing outstanding was Rs.230 crores (long term/short term).

The liquidity profile of the company is comfortable supported by shorter tenure and regular amortizing microfinance loan book.

Improvement in capitalization profile post raising of equity capital of Rs.43 crore in July 2018: SML's CAR and Tier 1 capital was 19.26% and 12.72% as on June 30, 2018; its adjusted gearing was around 10 times as on June 30, 2018. During Q1, FY19 SML had raised equity capital of Rs.12.3 crore through rights issue. Company's tangible net worth was Rs.29.32 crore as on June 30, 2018. Subsequently, in July 2018, the company had raised equity capital of Rs.43 crore including Rs.37.40 cr from Japanese Investor, Gojo & Company and Rs.5.40 cr from existing investor Dia Vikas Capital, adjusted for which company's adjusted gearing level declined to 4.1 times. The capital raised in Jul-18 will also enable company to scale up its operations. Going forward, the ability of the company to raise capital in a timely manner and to maintain comfortable capitalization profile would be critical for its capitalization profile.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Key Rating Weaknesses

Short track record and small scale of operations: SML started its microfinance business in Nov 2016. The total loan book (including managed loan book) of SML although increased significantly from Rs.87.11 crore as on September 30, 2017 to Rs.219.54 crore as on March 31, 2018 and further Rs.255.56 cr as on June 30, 2018, still remain relatively small. The company's operations are currently spread over 11 states.

Loss making operations being in initial years of business: The Company has reported net losses of Rs.6.39 crore in FY18 and Rs.0.93 crore in Q1FY19 as it is in initial years of operations and yet to achieve significant scale and hence operating expenses in relation to managed loan book remained high. However, company's profitability is expected to improve with scaling up of operations and company is projected to report positive PAT in FY19.
The interest spread of the company is 9.30% as on June 30, 2018. Its operating expenses are high at 8.34% as on June 30, 2018.

Low seasoning of portfolio though asset quality is good: As SML started operations in Nov-16 and substantial chunk of its borrowers are in first loan cycle, loan book's seasoning of the portfolio remains low though the asset quality is good so far but trend in company's asset quality is yet to be established. SML's 0+ PAR was Rs.0.17 crore (0.06% of loan book) as on June 30, 2018.

Industry Risk: Inherent risk involved in the microfinance industry including unsecured lending, socio-political intervention risk and regulatory uncertainty.

Analytical approach:
Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Short-term Instruments
Rating Methodology for Non-Banking Financial Companies
Financial Ratios (Financial Sector)

About the Company
Satya Microcapital Limited (SML) is a public limited company, originally incorporated on May 18, 1995 at New Delhi as TFC Finvest Ltd under the provisions of The Companies Act, 1956. TFC Finvest Ltd. was acquired by the current promoter, Mr. Vivek Tiwari and the name was changed to SML in November 2016 when the company commenced Microfinance lending operations. The company started its operations in November 2016 from Sikandrabad Branch, Bulandshar District of Uttar Pradesh and has now spread its reach to eleven states i.e. Uttar Pradesh, Punjab, Bihar, Rajasthan, Haryana, Chattisgarh, Uttarakhand, Orissa, Delhi, Assam and West Bengal.
SML's operations are managed by Mr. Vivek Tiwari, promoter director with experience of more than a decade in the microfinance sector.
The company follows Joint Liability Group (JLG) model. SML's target segment consists of rural and urban women from low income families at the bottom of the pyramid. SML's operations are managed through a network of 55 branches and workforce of 489 employees spread across 11 states.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total Income	0.96	26.96
PAT	-1.46	-6.39
Interest coverage (times)	NM	0.61
Total Assets (excluding Intangibles and unamortized expenses)	49.9	284.0
Net NPA (%)	Nil	Nil
ROTA (%)	NM	NM

A: Audited, NM: Not Meaningful

Status of non-cooperation with previous CRA: Not applicable
Any other information: Not applicable
Rating History for last three years: Please refer Annexure-2
Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Analyst Contact:
Name: Mr Puneet Maheshwari
Tel: 011 – 4533 3251
Mobile: +91 9871799127
Email: p.maheshwari@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer
CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.
In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Nov 2020	50.00	CARE BBB-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	50.00	CARE BBB-; Stable	-	1)CARE BB+; Stable (12-Feb-18)	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Ltd.)
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691